

**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

**PREPARED BY THE
OFFICE OF THE TOWN MANAGER**

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TOWN HISTORY

The name Los Gatos comes from "El Rancho Rinconada de Los Gatos," a ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880s. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people producing residential and commercial development. Highway 17 was constructed through the center of Town. Growth leveled off in the early '70s, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community. From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

Los Gatos' boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create the picturesque setting of the Town. In the midst of an increasingly uniform urban complex, this setting has attracted people with a preference for the Town's distinctive, high quality natural and urban environment.

The slow growth of the Town over an extended number of years has left the Town with a heritage of older, established residential areas and a downtown with many historic buildings representing the various eras in the Town's history. Protection of these historic resources which are a major part of the Town's character is an important community goal. Two museums, Tait Avenue and Forbes Mill, help preserve the Town's valued history.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

TITLE	PAGE
 INTRODUCTORY SECTION:	
Table of Contents.....	i
Letter of Transmittal.....	iii
Principal Officers.....	ix
Organization Chart.....	x
GFOA Award	xi
CSMFO Award.....	xii
 FINANCIAL SECTION:	
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
 <i>Basic Financial Statements:</i>	
Government-Wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities	13
 Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes	
in Fund Balances	16
Reconciliation of Governmental Funds Statement of Revenues, Expenditures,	
and Changes in Fund Balances to the Statement of Activities	17
Statement of Revenue, Expenditures and Changes in Fund Balances –	
Budget and Actual (GAAP) General Fund.....	18
 Proprietary Funds – Internal Service Funds:	
Statement of Net Assets	19
Statement of Revenue, Expenses and Changes in Net Assets.....	20
Statement of Cash Flows	21
 Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	22
Statement of Changes in Fiduciary Net Assets	23
Notes to the Basic Financial Statements.....	24

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

SUPPLEMENTARY INFORMATION:

Major Governmental Fund Schedules (other than the General Fund):

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) Appropriated Reserves Fund	48
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) Certificates of Participation Fund	49
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) Redevelopment Agency Capital Projects Fund	50

Nonmajor Governmental Funds:

Combining Balance Sheets	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	53
Budgeted Nonmajor Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP)	55

Internal Service Funds:

Combining Statement of Net Assets	61
Combining Statement of Revenue, Expenses and Changes in Net Assets	62
Combining Statement of Cash Flows	63

Agency Funds:

Statement of Changes in Assets and Liabilities - Parking Improvement District #88	64
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STATISTICAL SECTION:

Net Assets – Last Ten Fiscal Years	65
Changes in Net Assets – Last Ten Fiscal Years	66
General Revenue by Source – Last Ten Fiscal Years	68
General Expenditures by Function – Last Ten Fiscal Years	69
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years	70
Property Tax Levies and Collections – Last Ten Fiscal Years	71
Property Tax Rates – All Direct and Overlapping Governments – Last Ten Fiscal Years	72
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	73
Special Assessments Billings and Collections – Last Ten Fiscal Years	74
Property Values, Construction and Bank Deposits – Last Ten Fiscal Years	75
Demographic Statistics – Last Ten Fiscal Years	76
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures – Last Ten Fiscal Years	77
Computation of Direct and Overlapping Debt	78
Computation of Legal Debt Margin	79
Principal Taxpayers	80
Major Employers	81
Miscellaneous Statistics	82

OTHER INDEPENDENT AUDITOR'S REPORTS:

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	78
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OFFICE OF THE TOWN MANAGER

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December 5, 2005

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2005. This report was prepared by management and the Finance staff in the Town Manager's Department, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2005, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34). This new GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials and Town administrative personnel, and organization chart delineating organizational structure.
- II. The Financial Section includes the independent auditors' opinion, management's discussion and analysis, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of C.G. Uhlenberg LLP, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association and the California Society of Municipal Finance Officers for consideration for their Awards for Excellence in financial reporting. These awards are granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, which was incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to nationally as "Silicon Valley". From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community.

Five council members are elected at large for staggered four-year terms to govern the Town. The Town Clerk and Town Treasurer are also elected for four-year terms. The Mayor and Vice-Mayor are elected by the Council from their own ranks and serve for one-year terms. The Town Manager and Town Attorney are hired directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, Community Services and a Public Library.

This report includes all funds of the Town of Los Gatos. It also includes the financial activities of the Los Gatos Redevelopment Agency which is governed by the Los Gatos Town Council who sit as the board members for the Agency. Financial information for the Los Gatos Redevelopment Agency is aggregated and merged with that of the Town in the financial statements in accordance with generally accepted accounting principles.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the Town of Los Gatos experienced signs of a moderate recovery from the recent economic downturns experienced locally since FY 2001/02. The majority of the recovery was in one economically sensitive revenue; the Town's share of sales tax. Fiscal developments for the Town in 2004/05 also included the effects property tax "takes" resulting from the State's budget crisis and the continuation of historically low interest rates which continue to significantly impact the Town's interest earnings.

Since FY 2001/02 the Town has implemented a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving

efficiencies, among other strategies that have allowed the Town to remain fiscally balanced in challenging economic times.

The Town relies heavily on sales tax revenues to support general fund operations, comprising approximately 30% of general fund revenues in FY 2004/05. The FY 2004/05 sales tax receipts of \$7.9 million were significantly above the prior year's collections of \$6.9 million, due mainly to receipt of "one-time" successful sales tax appeal recoveries and exceptional growth from one internet commerce retailer. Other economically sensitive revenues such as Transient Occupancy Taxes and Business License Taxes trended slightly higher than the prior year. Local economic recovery and strengthened compliance efforts are providing some boost to this revenue growth. Despite the slow recovery in the local economy, the Town continues to actively engage its economic vitality program as an integral part of the Town's overall strategic initiative to ensure fiscal health for the Town. Additional indications of an improving local economy is that property tax collections continued a moderate growth trend in the fiscal year, increasing approximately 2% from the prior year, evidencing that the Town continues to be viewed by potential home buyers as a highly desirable community causing real estate values to continue to remain strong despite local economic downturns.

Again this fiscal year, the Town experienced challenges created through the State of California's budget deficit. Since 1991, the State has diverted or taken portions of Town revenues such as property taxes to balance its fiscal equation. The Town anticipated correctly that two years of State property tax "takes" would occur in FY's 2004/05 & 2005/06. The two-year take was implemented by the State because it was facing multi-billion dollar deficits. The Town managed to limit the effects of State property tax takes with pro-active strategic budgetary changes and expenditure reductions on an organizational basis, and despite the loss in property tax revenue sustained by the Town, the Town's high level of services were maintained, and the General Fund continued in strong fiscal health through FY 2004/05.

Although State revenue sources continue to be in jeopardy, the overwhelming majority passage of Proposition 1A in the Fall of 2005 is expected to provide more assurance of revenue stability for the future. Proposition 1A amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. With its passage, the State is precluded from reducing local sales tax rates or alter the method of allocation. It prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year under the laws in effect as of November 3, 2005, and increases legislative approvals for altering how property tax revenues are shared among local governments. The measure also prohibits the State from reducing the property tax revenues provided to cities and counties, and requires the State to provide local governments with equal replacement revenues if the VLF rate is reduced below its current level.

While the Town continues to manage in an environment of great uncertainty, Town staff continues to work diligently through its outreach efforts to the community, the League of California Cities, and local legislators to prevent any future revenue losses.

MAJOR INITIATIVES

Despite the ongoing revenue challenges, FY 2004/05 was a year of high activity. Town efforts continued to focus on economic vitality issues to address business retention and expansion, and ongoing outreach to the local business community. In conjunction with these efforts, mobilization and funding was approved for North Santa Cruz Avenue (Downtown) repaving, to improve traffic circulation in the downtown business district.

Three major developments were approved by the Town Council in FY 2004/05; the conversion of the Villa Felice site to 33 single family residences, adding 14 new hillside homes as part of the Shannon Valley Ranch development; and a new 10,800 sq. foot office building on Oak Meadow Drive. The Town Council also adopted new commercial design guidelines. These guidelines are intended to aid businesses, commercial property owners, and design professionals in developing plans for remodels, upgrades, and development of new commercial buildings.

The Town continued to make large investments in the Town's streets and curbs and gutter infrastructure including roadway improvements on approximately 5.5 miles of Town streets during the fiscal year. Parking lot improvements were made to Parking Lot 4, improving disabled access, ramps, and better signage for downtown visitors. In addition to the investment's countering the effects of delayed infrastructure/town facility repair and maintenance, Town projects also emphasized health and safety improvements and traffic circulation. Pedestrian and bicycle safety improvements included the implementation of Safe Routes to Schools projects, crosswalk improvements and Highway 9 Safety Improvements. Improvements to the storm drain system were completed at Causey Lane and North Santa Cruz, improving the drainage of rain water where street flooding tended to occur during heavy rain periods, improving access to the Downtown businesses during the winter season.

Additional infrastructure improvements were scheduled in accordance with the Town's approved Capital Improvement Plan, and continue into the following years. All of these improvements are funded either through debt issuance in the case of the downtown improvements, with grant assistance, or via revenues accumulated from prior years budget savings and excess revenues that Town Council policy strategically allocated for this purpose.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is considered in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data,
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh its benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined, and available means the cash is received within forty-five days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

With the implementation of GASB 34, the Town now prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget and five-year capital improvement plan is adopted by the Town Council on a basis consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council by resolution during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of C.G. Uhlenberg LLP performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Mary Furey, Accounting Manager, Linda Debar, Accountant, and Glenda Cracknell, Senior Accounting Technician, for their efforts in preparing this report.

Respectfully submitted,



Debra J. Figone
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2005**

TOWN COUNCIL

Mayor

Vice Mayor

Councilmember

Councilmember

Councilmember

Mike Wasserman

Diane McNutt

Steve Glickman

Joe Pirzynski

Barbara Spector

COUNCIL APPOINTEES

Town Manager

Town Attorney

Debra Figone

Orry Korb

ELECTED OFFICIALS

Town Clerk

Town Treasurer

Marian V. Cosgrove

Linda Lubeck

APPOINTED OFFICIALS

Assistant Town Manager

Chief of Police

Community Services Director

Finance & Administrative Services Director

Library Director

Parks and Public Works Director

Community Development Director

Human Resources Director

Pamela Jacobs

Scott Seaman

Regina Falkner

Stephen D. Conway

Peggy Conaway

John Curtis

Warren "Bud" Lortz

Rumi Portillo

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Los Gatos,
California

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

Town of Los Gatos

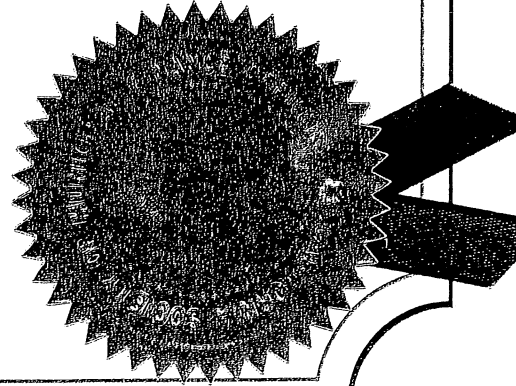
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

William A. Shumel

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



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Management's Discussion and Analysis

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ended June 30, 2005. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Town assets exceeded its liabilities at the close of FY 2004/05 by \$82,940,568 (net assets). Of this amount, \$31,410,468 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's net assets increased by \$3,752,035 during the fiscal year. The increase is mostly due to growth in net assets in: the Town's General Fund (approximately \$1.8 million); the Redevelopment Agency's Debt Service Fund (of \$.3 million); and the Low and Moderate Housing funds (of \$1.0 million). The General Fund net asset increases are largely due to expenditure savings experienced by many departments in FY 2004/05, sales tax growth exceeding estimates due to receipt of "one-time" revenues resulting from appeals at the State level and growth of one internet commerce retailer beyond assumptions forecast in the FY 2004/05 budget. Redevelopment funds experienced growth in net assets resulting from tax increment revenues exceeding expenditures for the current year.
- At the end of FY 2004/05, unreserved fund balance for the General Fund was \$12,144,819, approximating 48.33% of General Fund expenditures for FY 2004/05.
- The Town and Redevelopment Agency continued its efforts in addressing the critical infrastructure needs of the Town. Approximately \$1.5 million in Town infrastructure and other capital asset improvements were made in the year, including a \$300,000 capital contribution in the City of San Jose's animal shelter, and approximately \$1.0 million invested in the Town's streets, parking lots, and downtown streetscapes, providing improvements to the Town's traffic flows and adding enhancements to the downtown. With these investments, overall pavement condition ratings on the Town's streets continue to improve.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-wide financial statements

The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets – presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities – presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, redevelopment, and general government. The Town has no business-type activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the "Agency") for which the Town is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide redevelopment in the Town. Additional information on this legally separate entity can be found in Note 1(A) in the notes to basic financial statements.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The Internal Service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 41-68 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$82.94 million at the end of the current fiscal year.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Town of Los Gatos
Net Assets

	Governmental Activities	
	2005	2004
Current and Other Assets	\$ 62,750,920	\$ 58,044,966
Capital Assets	49,979,229	50,547,211
Total Assets	112,730,149	108,592,177
Current Liabilities	16,001,576	17,273,644
Long-term Liabilities Outstanding	13,788,005	12,130,000
Total Liabilities	29,789,581	29,403,644
Net Assets:		
Investment in Capital Assets, Net of Related Debt	38,234,229	38,417,211
Restricted	13,295,871	11,463,187
Unrestricted	31,410,468	29,308,135
Total Net Assets	\$ 82,940,568	\$ 79,188,533

Capital assets represent approximately 46.1% of the Town's net assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Investment in Capital Assets, Net of Related Debt* decreased slightly, by \$182,982. The \$182,982 decrease is the net result of approximately \$1.5 of capital asset additions made in FY 2004/05 less current year depreciation expense reducing total asset values by approximately \$2.1 million and asset retirements of approximately \$6,400.

An additional portion of the Town's net assets (3.68 percent) represents resources that are subject to external restrictions on how they may be used. The *Restricted Net Asset* balance increase for the fiscal year is comprised primarily of remaining cash balances from the 2002 Certificate of Participation issuance of \$10.7 million, and is restricted for use in eligible redevelopment related capital improvements.

The balance of *Unrestricted Net Assets* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *Unrestricted Net Assets* represent 51.0 percent of the Town's net assets at year end.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2005

	GOVERNMENTAL ACTIVITIES	
	2005	2004
REVENUES		
<i>Program Revenues:</i>		
Charges for Services	\$ 7,488,518	\$ 7,226,220
Operating Grants and Contributions	1,407,865	1,399,185
Capital Grants and Contributions	867,951	1,166,929
<i>General Revenues:</i>		
Property Tax	11,931,215	9,645,339
Sales Tax	7,904,130	6,914,526
Other Taxes	1,864,997	1,823,019
Motor Vehicle In Lieu	314,041	1,298,455
Investment Earnings	1,286,433	(92,621)
Proceeds from Sale of Property	-	-
Other	372,315	25,415
TOTAL REVENUES	33,437,465	29,406,467
EXPENSES		
Police Department	10,524,840	9,980,927
Parks and Public Works	5,953,319	6,179,328
General Government	4,341,526	4,246,133
Community Development	2,494,689	2,229,686
Library Services	1,786,696	1,807,662
Redevelopment	2,133,008	1,828,924
Interest and fees	696,265	662,867
Community Services	920,562	1,046,351
Sanitation	834,525	832,538
TOTAL EXPENSES	29,685,430	28,814,416
INCREASE IN NET ASSETS	3,752,035	592,051
Net Assets, Beginning	79,188,533	78,800,636
Prior Period Adjustments		(204,154)
NET ASSETS, ENDING	\$ 82,940,568	\$ 79,188,533

Governmental activities

As shown in the schedule above, governmental activities for the year increased the Town's Net Assets by \$3,752,035. Key elements of the increase in net assets are as follows:

- Property Tax Revenues collected for the Town and Redevelopment Agency accounted for 35.7% of Town General Revenues. Property Tax increased 31.67% from the prior year. The increase from the prior year amount is largely the result of the State of California's decision to "backfill" the realigned local vehicle license fee revenues (approximately \$1.6 million) with property taxes. Excluding the "backfill" property taxes, the Town's ad valorem property taxes increased more moderately for the Town and Redevelopment Agency, averaging a 1.8% increase from the prior year. The increase resulted from modest overall growth of assessed value in the Town, net of homeowner exemption value, reflecting the continued desirability of the Town in a very active real estate market in Santa Clara County.
- Sales Tax revenue accounted for 23.64% of Town General Revenues at \$7.9 million for the year, exceeding the prior year collections by \$989,604 or an increase of 14.31%. This recovery from the prior year is due in large part to one-time payments relating to prior sales tax appeals and to the performance of one internet commerce retailer that experienced large sales growth in the past fiscal quarter.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

- Other Taxes and Motor Vehicle in Lieu Taxes of \$2,179,038 accounted for 6.5% of General Revenues, decreasing 30.10% from the prior year's amount of \$3,121,474. The decrease is largely attributable to the action taken by the State of California in the fiscal year wherein the State reduced vehicle license fees by 2/3rds and replaced the loss to local governments with replacement "backfill" property tax.
- Investment Earnings of \$1,286,433 were a substantial improvement from the prior year, reflecting the portfolio's more favorable interest rate position relative to the market. The prior year's negative result of (\$92,621) was due to the adjustment of interest earnings by a "mark to market" accounting entry required under Governmental Accounting Standards Board Statement # 31, requiring the Town to adjust fixed income securities from cost to current market value at year-end. The mark down was taken by reducing interest earned in FY 2003/04. The Town's adopted investment policy is a "hold to maturity" portfolio, so the potential for a loss on sale of securities below the price the Town paid for them is minimal.

Total expenditures increased approximately \$871,014 or 3.0% from the prior year, largely as a result of increases in three service areas, police, community development, and redevelopment activities. In the case of the police services, the increases in operating expenses were due to two primary factors, an increase in overtime and cost increases in accordance with previously bargained labor contracts, most notably in employer's pension contributions. The increase to community development expenditures were due mainly to a spike in service demands delivered for private development, which were funded by "pass through" fees and charges for services rendered. Adding to the overall increase was the normal inflationary cost escalation, and continued growth in the demand for essential Town services.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2004/05, the Town's Governmental Funds reported combined ending fund balances of \$32,214,258, an increase of \$3,721,323 in comparison with the prior year. The majority of this increase is from the Town's General Fund, which accounts for nearly half of the increase with \$1.8 million, the Redevelopment Agency's Debt Service which contributes \$.3 million, and the Low and Moderate Housing funds with \$1.0 million of the increase.

The General Fund net asset increases are attributed to a number of factors including expenditure savings Town-wide in FY 2004/05, Sales Tax growth exceeding estimates due to receipt of "one-time" revenues resulting from appeals at the State level and growth of one internet commerce retailer beyond assumptions forecast in the FY 2004/05 budget.

Redevelopment funds experienced growth in net assets resulting from tax increment revenues exceeding expenditures for the current year. Approximately 58.40% of the total amount of governmental fund balances (of \$20,993,368) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period (\$448,688); 2) pay debt service (\$449,586); 3) provide for loans/advances due to the Town (\$1,500,000) and solid waste program (\$150,000); 4) provide for appropriated capital projects (\$6,913,185); 5) provide for low and moderate housing (\$4,335,193); 6) provide for long term notes receivable (\$1,039,405); and 7) to provide for dedicated repair and maintenance in lighting and landscape districts (\$106,666).

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$12,144,819, while total fund balances were \$14,242,364. General fund revenues (including operating transfers-in) increased by \$2,872,787 from the prior year. The largest increase occurred in the growth of sales tax, primarily due to "one-time" receipts from appeals and corrections, and significant growth in sales experienced by one principal internet commerce retailer. General Fund expenditures (including transfers-out) increased \$827,931 from the prior fiscal year. The biggest factor contributing to the overall increase in expenditures was the rising cost of pension benefits for public safety employees, increases in public safety overtime, and an increase in community development services, (which are largely recovered through matching fees charged by the Town for private development activities).

Special Revenue Funds - The Special Revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town. During the current year, Special Revenue fund revenues remained steady with prior years, experiencing a small increase of 7.71% (\$91,321) from levels received in the prior year. However, operating expenditures decreased 18.9% per cent from the prior year (\$234,202), due largely to decreases in community service activities associated with the Town's Community Development Block Grant Program's in affordable housing and home rehabilitation programs. At the end of the FY 2004/05, total fund balances for Special Revenue funds were \$1,660,560 with unreserved fund balance of \$962,033 and reserved balances of \$698,527.

Debt Service Funds - The Debt Service Fund balance totals \$4,481,845, all of which is reserved or designated for the payment of debt service for Town and Redevelopment Agency activities. The net fund balance increased in the debt service fund by \$337,415 primarily due to redevelopment tax increments exceeding agency debt service expenditures during the year.

Capital Project Funds - The Capital Projects fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. Total Town Capital Project Fund balances at year end were \$15,550,814, an increase of \$1,463,500 from the prior year. The increase is mostly due to the increase in fund balances in the Redevelopment Agency's Low and Moderate Income Housing Fund (\$979,094).

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Internal Service Funds - The Town has seven internal service funds: Worker's Compensation; Self Insurance; Stores; Vehicle Maintenance; Building Maintenance; Management Information Systems; and Equipment Replacement funds. Revenues to these funds are generated from fees charged to the Town's operating programs for services provided.

The Equipment Replacement Fund charges replacement costs and the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$222,582 and (\$13,539) respectively versus \$463,958 and \$98,219 in the prior year. The decrease in operating income in the Equipment Replacement from the prior year is attributable to significant vehicle purchases (patrol units, motorcycles, and street sweepers) not made in FY 2003/04. The decline in the Vehicle Maintenance Fund net operating income reflects a reduction in charges for services to more closely align with estimated operating expenditures expected for FY 2004/05.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The Building Maintenance, Stores and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail, office inventory and duplication charges, and management information services. Net operating income before transfers at year end was \$250,185, \$11,965, and \$176,150 respectively versus \$257,848, \$23,501 and \$329,782 in the prior year. Net income decreased in the Management Information services fund from the prior year due in large measure to an increase in scheduled replacements of office computers and expenditure of \$52,000 in computer and server replacements for the library.

The Worker's Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, worker's compensation and self-insurance costs. Net operating income before transfers at year end was \$97,965 and \$117,924 respectively, versus (\$153,453) and (\$183,672) in the prior year. Operating income increases for the year in both Worker's Compensation and the Self Insurance funds reflect the decreased experience of loss claims in the current year from the prior year in both the worker's compensation and the general liability arena. Operating transfers out for both funds decreased from \$250,000 in the prior year to zero in the current year, reflect management's decision to suspend rebates in this program area for the fiscal year.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2004/05 original budget (or adopted) General Fund amount of \$25,861,389, the final budget amount of \$26,414,660 shows a net increase of \$118,294. Additions to the original budget included approved additions of \$553,271 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carryforwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$25,861,389	\$-0-	\$-0-	\$553,271	\$26,414,660

The increase in General Fund appropriations occurred from the following budget adjustments:

- The General Fund appropriated budget was increased \$300,000 to provide for the Town's share of animal shelter facility capital costs due as agreed with the City of San Jose, the new provider for animal services for the Town.
- Other General Fund adjustments included \$100,000 in operating transfers to backfill projected revenue shortfalls for FY 2004/05 in the Town's Parking Management program. Outside legal services were increased \$25,000 for the KCAT Board re-organizational planning activities. \$40,000 of increased appropriations were approved to provide for outside recruitment services and \$35,000 was added for labor relations services.
- Miscellaneous adjustments totaling \$53,271 of supplemental appropriations also occurred in this period. Included in these increases were additions to legal claims, and repossession of a below market priced home.

Capital Assets

The Town's investment in capital assets for its governmental activity as of June 30, 2005, is recorded at \$49,979,231 (net of accumulated depreciation). The investment in capital assets includes land, buildings and

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

improvements, infrastructure, construction in progress and machinery and equipment. During FY 2004/05 the Town's investment in capital assets for the current year totaled 1.01% for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$520,181 of curb, gutter and sidewalk work was completed during the year, including \$243,813 of work related to the state "Safe Routes to Schools" program.
- The Town made substantial improvements to its information technology capabilities, including approximately \$175,900 for upgrades to the Town's public safety dispatch center. Approximately \$52,700 was invested in the library for early replacement of public use computers and a new catalog server.
- The Town also completed approximately \$116,500 in parking lot improvements in the Downtown Redevelopment Project Area during the fiscal year.

Town of Los Gatos
Capital Assets (net of accumulated depreciation)
June 30, 2005

	Governmental Activities
Land	\$ 14,165,194
Construction in Progress	381,958
Buildings	5,090,824
Equipment	2,076,461
Infrastructure	28,264,794
	<u>\$ 49,979,231</u>

Additional information on the Town's capital assets is found in note 5 of this financial report.

Debt Administration

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$11,745,000. The entire liability is comprised of debt backed by the Town's obligation to pay lease payments to the Town's Redevelopment Agency. The Town's long-term obligations outstanding as of June 30, 2005 consist of the following:

Town of Los Gatos
Outstanding Debt at June 30, 2005

	<u>Governmental Activities</u>
Certificates of Participation	<u>\$ 11,745,000</u>
Total Outstanding Debt	<u>\$ 11,745,000</u>

The Town's debt obligations decreased by \$385,000 during the fiscal year. The decrease resulted from the scheduled principal payments made in the fiscal year for the 2002 Certificates of Participation and the 1992 Certificates of Participation. The rating of the Town's certificates of participation series from Moody's ranges from Aaa to Aa2 and from Standard & Poor's from AAA to AA-. Additional information on the Town's long-term debt can be found in note 6 of this report.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Economic Factors and Next Year's Budgets and Rates

A product of an ongoing examination of how the Town provides cost-effective services, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town's FY 2005/06 budget, the Town Council and management considered the following factors:

- The Town anticipated modest recovery in Sales Tax growth for FY 2005/06. Though some retailers continued to experience sluggish growth in sales in FY 2004/05, there were positive signs in certain sectors such as general retail and auto sales. Sales Tax estimates were forecast and budgeted by staff to increase moderately (\$300,000) from the prior year to total approximately \$7.3 million dollars for FY 2005/06. With Sales Tax representing approximately 30% of the Town's General Fund revenues, any impairment to this moderate recovery in local sales tax collections will continue to impact the Town.
- General property tax collections representing approximately 26% of the Town's General Fund revenues reflect positive growth of 1.8% (not including the State's Property Tax "backfill" shifts). The growth in Property Tax, though positive, is less than the 4% growth experienced the prior fiscal year. However, the continuing growth trend does point to the Town's continued desirability as a place to live in the greater Santa Clara Valley. The growth in property taxes is largely attributable to the increase in assessed valuation that occurs upon the turnover of housing stock in the Town.
- Fiscal Year 2005/06 budgeted Property Tax was reduced \$476,000 for the Town and \$303,000 for the Redevelopment Agency to reflect the second year of the Town's share of an additional \$1.3 billion in State property tax takes used to fund the Educational Augmentation Reallocation Fund (known as ERAF III) in accordance with the terms of the historic two-year budget agreement made between the state legislature and cities, counties and special districts in the state. The agreement was approved in FY 2004/05 as part of a compromise made by the state to bring forth an amendment to the state constitution preventing further state property tax revenue takes (Proposition 1A).
- The Town's investment portfolio experienced a small improvement in its overall weighted average annual yield, rising from 2.43% at June 30, 2004 to 2.85% at June 30, 2005. Due to an improving interest rate climate for FY 2005/06, investment earnings were expected to continue to rise from the returns experienced in FY 2004/05. This trend was built into the adopted budget estimates for the upcoming year.
- Transient Occupancy Tax revenues improved moderately from the prior year, possibly due to higher occupancy rates and local economic recovery. The small increase occurred despite the loss in total rooms due to the conversion of one local hotel to residential property in December 2004. A small decrease from \$900,000 to \$870,000 was budgeted for FY 2005/06, reflecting the loss in overall room capacity, offset by a moderate recovery in tourism and business travel experienced locally since the low levels seen in recent years.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.

Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT-WIDE FINANCIAL STATEMENTS STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect of the entire Town's transactions are accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Assets report the Town's total assets and liabilities, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing the reader on the composition of the Town's net assets (assets minus liabilities). The Statement of Net Assets summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net assets and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net assets. From these components, the change in net assets is computed and reconciled to the Statement of Net Assets.

Both of these statements include the financial activities of the Town and the Redevelopment Agency of the Town of Los Gatos, which is a legally separate, but a component unit of the Town because it is controlled by the Town, which is financially accountable for its activities.

The Statement of Net Assets, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town. The term "Basic Financial Statements" replaces the term "General Purpose Financial Statements" which is no longer used.

TOWN OF LOS GATOS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 55,802,151
Restricted cash and investments (Note 2)	4,134,188
Receivables:	
Accounts	1,030,893
Interest	33,324
Intergovernmental	692,592
Materials, supplies and deposits	18,367
Long term notes receivables (Note 3)	1,039,405
Capital Assets (Note 5):	
Nondepreciable	14,547,152
Depreciable, net of accumulated depreciation	<u>35,432,079</u>
 Total Assets	 <u><u>\$ 112,730,151</u></u>
LIABILITIES	
Accounts payable	\$ 625,632
Accrued payroll and benefits	4,359,605
Accrued interest payable	226,301
Pass through obligations	2,079,912
Unearned Revenue	4,543,268
Deposits	3,335,559
Claims payable (Note 11)	831,301
Long-term liabilities (Note 6):	
Due within one year	
Compensated absences (Note 1)	514,000
Certificates of participation	400,000
Due in more than one year	
Compensated absences (Note 1)	1,529,005
Certificates of participation	<u>11,345,000</u>
 Total Liabilities	 <u><u>\$ 29,789,583</u></u>
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	\$ 38,234,231
Restricted for:	
Capital projects	4,041,600
Housing	4,335,193
Special revenue projects	1,149,730
Debt service	449,075
Redevelopment projects	<u>3,320,273</u>
 Total Restricted Net Assets	 13,295,871
 Unrestricted	 <u>31,410,466</u>
 Total Net Assets	 <u><u>\$ 82,940,568</u></u>

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
					Governmental
					Activities
Governmental Activities:					
General government	\$ 4,341,526	\$ 1,640,632	\$ -	\$ -	\$ (2,700,894)
Police department	10,524,839	1,386,479	566,180	-	(8,572,180)
Parks and public works	5,693,609	757,790	556,121	867,951	(3,511,747)
Community development	2,494,689	2,569,923	-	-	75,234
Community services	920,562	182,075	262,554	-	(475,933)
Library services	1,786,696	61,671	14,987	-	(1,710,038)
Sanitation	834,525	889,948	8,023	-	63,446
Redevelopment	2,392,717	-	-	-	(2,392,717)
Interest and fees	696,266	-	-	-	(696,266)
Total Governmental Activities	<u>\$ 29,685,428</u>	<u>\$ 7,488,518</u>	<u>\$ 1,407,865</u>	<u>\$ 867,951</u>	<u>(19,921,094)</u>
General revenues:					
Taxes:					
Property taxes					11,931,215
Sales taxes					7,904,130
Other taxes					1,864,997
Motor vehicle in lieu - unrestricted intergovernmental					314,041
Investment earnings					1,286,433
Miscellaneous					378,691
Special item - loss on diposal of capital assets					<u>(6,378)</u>
Total general revenues and special item					<u>23,673,129</u>
Change in Net Assets					3,752,035
Net Assets - Beginning					<u>79,188,533</u>
Net Assets - Ending					<u>\$ 82,940,568</u>

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS**

Fund Financial Statements:

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns has been discontinued along with the use of the General Fixed Assets and General Long-Term Debt Account Groups.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2005. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005**

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2)	\$ 20,512,398	\$ 6,771,828	\$ 7,596,036	\$ 345,095	\$ 8,735,406	\$ 43,960,763
Restricted cash and investments (Note 2)	-	-	449,075	2,985,541	650,611	4,085,227
Receivables:						
Accounts	339,528	243,908	-	-	441,630	1,025,066
Interest	33,324	-	-	-	-	33,324
Intergovernmental Receivable	459,680	-	70,896	-	162,016	692,592
Interfund Receivable	16,900	-	-	-	-	16,900
Long Term Notes Receivable (Note 3)	447,545	-	-	-	591,860	1,039,405
Advances to Other Funds (Note 4)	1,650,000	-	-	-	-	1,650,000
Total Assets	\$ 23,459,375	\$ 7,015,736	\$ 8,116,007	\$ 3,330,636	\$ 10,581,523	\$ 52,503,277
LIABILITIES						
Accounts Payable	\$ 430,395	\$ 15,011	\$ 54,250	\$ 1,634	\$ 21,269	\$ 522,559
Accrued payroll and benefits	4,302,339	-	-	8,729	24,641	4,335,709
Pass Through Obligations	-	-	2,079,912	-	-	2,079,912
Deferred revenue	1,064,928	3,146,978	-	-	331,362	4,543,268
Interfund Payables	-	-	-	-	16,900	16,900
Deposits	3,330,318	-	-	-	-	3,330,318
Advance from Other Funds (Note 4)	-	-	1,500,000	-	150,000	1,650,000
Compensated Absences (Note 1)	89,031	-	-	-	-	89,031
Total Liabilities	9,217,011	3,161,989	3,634,162	10,363	544,172	16,567,697
FUND BALANCE (Note 8)						
Reserved for:						
Encumbrances	-	-	-	448,688	-	448,688
Capital Outlay	-	-	-	2,871,585	4,041,600	6,913,185
Debt Service	-	-	449,075	-	-	449,075
Advances	1,650,000	-	-	-	-	1,650,000
Repairs and Maintenance	-	-	-	-	106,666	106,666
Long Term Notes Receivable	447,545	-	-	-	591,860	1,039,405
Low & Moderate Housing	-	-	-	-	4,335,193	4,335,193
Unreserved, designated for:						
Civic Center Improvement	663,086	-	-	-	-	663,086
Solid waste management	-	-	-	-	250,036	250,036
Open Space	562,000	-	-	-	-	562,000
Parking	186,930	1,972,000	-	-	-	2,158,930
Manager's Contingency	100,000	-	-	-	-	100,000
Productivity Enhancements	100,000	-	-	-	-	100,000
Economic Uncertainty	3,678,001	-	-	-	-	3,678,001
Capital Projects	2,421,842	1,881,747	-	-	-	4,303,589
Carryover	52,865	-	-	-	-	52,865
State budget agreement	476,000	-	-	-	-	476,000
Revenue stabilization	1,921,842	-	-	-	-	1,921,842
Debt Service	-	-	4,032,770	-	-	4,032,770
Unreserved, undesignated in:						
General Fund	1,982,253	-	-	-	-	1,982,253
Special Revenue Fund	-	-	-	-	711,996	711,996
Total Fund Balances	14,242,364	3,853,747	4,481,845	3,320,273	10,037,351	35,935,580
Total Liabilities and Fund Balance	\$ 23,459,375	\$ 7,015,736	\$ 8,116,007	\$ 3,330,636	\$ 10,581,523	\$ 52,503,277

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Fund Balance - Total Governmental Funds	\$ 35,935,580
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	49,979,231
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ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are used by management to charge the cost of management of certain activities, such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Assets.	10,951,032
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ACCRUAL OF INTEREST ON LONG TERM DEBT

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds.	(226,301)
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LONG-TERM LIABILITIES

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Certificates of participation	\$ (11,745,000)	
Compensated absences	(1,953,974)	(13,698,974)
	<u> </u>	<u> </u>

Net Assets - Governmental Activities	\$ 82,940,568
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The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 6,856,993	\$ -	\$ -	\$ -	\$ 37,398	\$ 6,894,391
Property Tax Increments	-	-	5,316,509	-	-	5,316,509
Less: Educational Revenue Augmentation Fund	-	-	(303,158)	-	-	(303,158)
Sales Taxes	7,904,130	-	-	-	-	7,904,130
Other Taxes	1,823,432	161,653	-	-	410,373	2,395,458
Licenses & Permits	2,417,204	-	-	-	-	2,417,204
Intergovernmental	2,338,905	349,368	-	-	1,605,047	4,293,320
Charges for Services	2,914,656	1,650	-	3,000	143,654	3,062,960
Fines and forfeitures	580,937	-	-	-	-	580,937
Interest	1,447,486	-	157,902	69,111	153,717	1,828,216
Other	-	-	-	1,597	-	1,597
Total Revenues	26,283,743	512,671	5,171,253	73,708	2,350,189	34,391,564
EXPENDITURES						
Current:						
General Government	4,372,991	-	-	-	-	4,372,991
Public Safety	10,506,167	-	-	-	-	10,506,167
Parks and Public Works	4,352,329	-	-	-	46,842	4,399,171
Community Development	2,527,730	-	-	-	-	2,527,730
Community Services	844,120	-	-	-	89,639	933,759
Library Services	1,770,991	-	-	-	-	1,770,991
Sanitation and Other	-	-	-	-	848,547	848,547
Capital Outlay	300,000	809,830	-	769,571	262,811	2,142,212
Redevelopment	-	-	2,084,767	-	-	2,084,767
Debt service:						
Principal	-	-	385,000	-	-	385,000
Interest & Fees	-	-	684,998	-	13,908	698,906
Total Expenditures	24,674,328	809,830	3,154,765	769,571	1,261,747	30,670,241
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,609,415	(297,159)	2,016,488	(695,863)	1,088,442	3,721,323
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	312,381	137,769	-	515,750	1,164,415	2,130,315
Transfers (out) (Note 4)	(76,092)	(65,572)	(1,679,073)	-	(309,578)	(2,130,315)
Total Other Financing Sources (Uses)	236,289	72,197	(1,679,073)	515,750	854,837	-
NET CHANGES IN FUND BALANCES	1,845,704	(224,962)	337,415	(180,113)	1,943,279	3,721,323
BEGINNING FUND BALANCES	12,396,660	4,078,709	4,144,430	3,500,386	8,094,072	32,214,257
ENDING FUND BALANCES	\$ 14,242,364	\$ 3,853,747	\$ 4,481,845	\$ 3,320,273	\$ 10,037,351	\$ 35,935,580

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Net change in Fund Balances - Total Governmental Funds	\$ 3,721,323
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 1,475,493	
Current year depreciation	<u>(2,073,772)</u>	(598,279)

Governmental funds do not report loss on disposal of capital assets. However, in the government-wide statement of activities and changes in net assets, the cost to dispose of capital assets, net any proceeds, is accounted for as a special item.	(6,378)
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LONG-TERM DEBT PROCEEDS AND PAYMENTS

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Certificates of participation	385,000
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ACCRUAL OF NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue		(423,507)
Interest payable		2,638
Compensated absences		(195,964)

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

	<u>867,202</u>
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Change in Net Assets - Governmental Activities	<u>\$ 3,752,035</u>
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The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 4,952,893	\$ 6,656,058	\$ 6,856,993	\$ 200,935
Sales Taxes	6,900,000	7,100,000	7,904,130	804,130
Other Taxes	1,868,000	1,848,000	1,823,432	(24,568)
Licenses & Permits	2,380,055	2,587,055	2,417,204	(169,851)
Intergovernmental	3,379,631	2,220,111	2,338,905	118,794
Charges for Services	2,729,725	2,624,725	2,914,656	289,931
Fines and forfeitures	674,950	574,950	580,937	5,987
Interest	1,414,514	1,440,614	1,447,486	6,872
Total Revenues	24,299,768	25,051,513	26,283,743	1,232,230
EXPENDITURES				
Current:				
General Government:				
Town Council	143,500	143,500	136,493	7,007
Town Treasurer	89,360	89,360	82,260	7,100
Town Clerk	335,410	335,410	312,958	22,452
Town Attorney	232,550	232,550	211,334	21,216
Town Manager	1,844,900	1,919,900	1,817,118	102,782
Non-Departmental	2,665,152	2,819,952	1,812,828	1,007,124
Total General Government	5,310,872	5,540,672	4,372,991	1,167,681
Public Safety	10,615,322	10,620,493	10,506,167	114,326
Parks & Public Works	4,441,290	4,477,390	4,352,329	125,061
Community Development	2,743,110	2,743,110	2,527,730	215,380
Community Services	934,430	916,630	844,120	72,510
Library Services	1,816,365	1,816,365	1,770,991	45,374
Capital Outlay	-	300,000	300,000	-
Total Expenditures	25,861,389	26,414,660	24,674,328	1,740,332
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,561,621)	(1,363,147)	1,609,415	2,972,562
OTHER FINANCING SOURCES (USES)				
Transfers in	934,070	934,070	312,381	(621,689)
Transfers (out)	-	-	(76,092)	-
Total Other Financing Sources (Uses)	934,070	934,070	236,289	(621,689)
NET CHANGES IN FUND BALANCES	\$ (627,551)	\$ (429,077)	1,845,704	\$ 2,274,781
FUND BALANCE, BEGINNING			12,396,660	
FUND BALANCE, ENDING			\$ 14,242,364	

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities Internal Service Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and investments available for operations (Note 2)	\$ 11,841,388
Restricted cash and cash equivalents	48,961
Accounts Receivable	5,827
Materials, supplies, and deposits	18,367
	<hr/>
Total current assets	11,914,543
	<hr/>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 5)	82,510
	<hr/>
Total noncurrent assets	82,510
	<hr/>
Total Assets	\$ 11,997,053
	<hr/> <hr/>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 103,073
Accrued payroll and benefits	23,896
Deposits	5,241
	<hr/>
Total current liabilities	132,210
	<hr/>
Noncurrent liabilities:	
Claims payable (Note 10)	831,301
	<hr/>
Total noncurrent liabilities	831,301
	<hr/>
Total Liabilities	\$ 963,511
	<hr/> <hr/>
NET ASSETS (Note 8)	
Invested in capital assets	\$ 82,510
Restricted for workers compensation claims	48,961
Unrestricted	10,902,071
	<hr/>
Total Net Assets	\$ 11,033,542
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 3,771,144
Refunds	22,122
Other	146,732
Total Operating Revenues	<u>3,939,998</u>
OPERATING EXPENSES	
Salaries and related expenses	769,507
Insurance expenses	690,727
Depreciation	3,970
Services and Supplies	1,612,562
Total Operating Expenses	<u>3,076,766</u>
Operating Income	<u>863,232</u>
Transfers (out) (Note 4)	<u>-</u>
Change in Net Assets	863,232
BEGINNING NET ASSETS	<u>10,170,310</u>
ENDING NET ASSETS	<u><u>\$ 11,033,542</u></u>

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 3,981,508
Payments to suppliers	(1,641,796)
Payments to employees	(766,388)
Claims paid	(805,967)
	<u>767,357</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(35,811)
	<u>(35,811)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	
	<u>731,546</u>
NET INCREASE IN CASH AND INVESTMENTS	
CASH AND INVESTMENTS - BEGINNING	<u>11,158,803</u>
CASH AND INVESTMENTS - ENDING	<u><u>\$ 11,890,349</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	863,232
Adjustments to reconcile operating income to cash flows provided by operating activities:	
Depreciation	3,970
Change in assets and liabilities:	
Receivables, net	47,543
Other assets	(635)
Accounts payable and other accrued expenses	(28,178)
Other accrued expenses	(118,575)
	<u>(118,575)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 767,357</u></u>

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments.

TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	PRIVATE PURPOSE TRUST	AGENCY FUND
	Library	Parking Improvement District #88
ASSETS		
Cash and investments (Note 2)	\$ 295,144	\$ 82,423
Restricted cash and investments (Note 2)	-	239,803
Intergovernmental receivable	-	797,765
Total Assets	<u>\$ 295,144</u>	<u>\$ 1,119,991</u>
LIABILITIES		
Accounts payable	\$ 2,242	\$ -
Due to other governments	-	1,119,991
Total Liabilities	<u>\$ 2,242</u>	<u>\$ 1,119,991</u>
NET ASSETS		
Reserved for library trust	<u>\$ 292,902</u>	
Total Net Assets	<u>\$ 292,902</u>	

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
PRIVATE PURPOSE LIBRARY TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Trust Fund
ADDITIONS	
Interest	\$ 6,880
Other	97,897
Total Additions	104,777
DEDUCTIONS	
Library services	61,251
Total Deductions	61,251
CHANGE IN NET ASSETS	43,526
NET ASSETS, BEGINNING OF YEAR	249,376
NET ASSETS, END OF YEAR	\$ 292,902

See accompanying notes to financial statements

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the "Town") operates under a Council-Manager form of government and provides the following services; public safety (including police, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services are provided primary through the Redevelopment Agency of the Town.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2005 was 28,976.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government, with its component unit for which the Town is considered financially accountable. The component unit discussed below is included in the Town's reporting entity because of the significance of their operational and financial relationships with the Town.

B. Description of Blended Component Units

The following component unit, although a legally separate entity, is reported as if it was part of the primary government because the Town Council is that component unit's governing body or it provides services entirely to the Town. Under the blended method of inclusion, the component units' balances and transactions are reported in a manner similar to the balances and transactions of the Town itself.

The Town of Los Gatos Redevelopment Agency (the "Agency") was established as a result of the Loma Prieta Earthquake in 1989 and the need to rebuild existing infrastructure. The Redevelopment Agency area encompasses approximately 440 acres in and around Downtown Los Gatos, which includes retail and residential areas, lodging, schools, and main traffic thoroughfares. Projects such as street and utility reconstruction, parking, streetscape and civic improvements were called out in the Plan. The Agency is governed by the Town Council in a separate capacity from the Town as members of the Redevelopment Agency Board.

The financial statements of the Agency's can be obtained from the Town of Los Gatos at 110 East Main St., Los Gatos, California, 95031.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 10, the Town participates in two joint venture and public entity risk pool activities through formally organized separate legal entities. The financial activities of the ABAG PLAN Corporation ("ABAG") and the Local Agency Workers' Compensation Excess Joint Powers Authority ("LAWCX") are not included in the accompanying basic financial statements as boards separate from and independent of the Town administer them.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

D. Basis of Presentation

The Town's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the Town) and its component units. These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

E. Major Funds

GASB Statement 34 defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, stores, vehicle maintenance, building maintenance, management information, and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds and agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement. The Town reported the following Fiduciary Funds in the accompanying financial statements:

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

F. Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town follows statements and interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with GASB pronouncements.

Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments for the Town, as well as for its component units, are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

Materials, Supplies and Deposits are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/advances from other funds". All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds and due from/to other funds are offset by a fund balance reserve account in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$5,000.

GASB Statement 34 allows the Town up to four years to record all its infrastructure assets. As of June 30, 2005, the Town has recorded all infrastructure assets as classified below.

As required by GASB Statement 34, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

	Governmental Activities
Beginning Balance	\$ 1,835,692
Additions	918,104
Payments	(710,791)
Total Ending Balance	<u>\$ 2,043,005</u>
Current Portion of Ending Balance	<u><u>\$ 514,000</u></u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences related to terminated employees are reported in the fund financial statements.

Long-Term Liabilities - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Postemployment Health Care Benefits - Substantially all Town employees and their surviving spouses are eligible for post-employment health care benefits which are funded on a pay-as-you-go basis. During the fiscal year ended June 30, 2005, 58 employees received benefits at a cost to the Town of \$47,702, net employee reimbursements.

Social Security - The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either social security or an alternative plan.

The Town's part-time, seasonal and temporary employees are covered under social security, which required these employees and the Town to contribute 6.2% of the employees pay. Total contributions

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

to Social Security for the year ended June 30, 2005 amounted to \$46,158, of which the Town paid one-half.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual amendments were not material in relation to original appropriations.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

New Accounting Pronouncements - Governmental Accounting Standards Board (GASB) Statement No. 40 - *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*.

For the year ended June 30, 2005, state and local governments are required to implement GASB Statement No. 40 on Deposit and Investment Risks. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

in interest rates. Deposit and investment policies related to the risks identified are disclosed as well.

GASB reconsidered the disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Portions of that Statement are modified or eliminated. The custodial credit risk disclosures of Statement 3 are modified to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Statement 3 disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments or the requirements for reporting certain repurchase agreements and reverse repurchase agreements, and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3. Please see Note 2 for disclosures related to GASB 40.

Upcoming New Accounting Pronouncements - GASB Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. Statement 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. This Statement also forces all governments to account for insurance recoveries in the same manner by requiring those recoveries to be netted against the impairment loss and disclosed in the notes to financial statements. The City is required to implement this pronouncement by June 30, 2006.

GASB Statement No. 46 - *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*

This statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets to increase comparability. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005.

GASB Statement No. 47 - Accounting for Termination Benefits

This Statement establishes accounting standards for termination benefits and supersedes accounting guidance in National Council on Governmental Accounting (NCGA) Interpretation 8, *Certain Pension Matters*, as amended, which addresses one form of voluntary termination benefits—*special termination benefits*, or those offered for a “short period of time.” It improves financial reporting by (a) adopting for *all* voluntary termination benefits recognition requirements similar to those in NCGA Interpretation 8, (b) establishing guidance applicable to involuntary termination benefits that requires governments, in financial statements prepared on the accrual basis of accounting, to account for the effects of termination benefits in the period in which the employer becomes obligated to provide benefits to terminated employees, and (c) elaborating on measurement issues associated with all forms of termination benefits.

The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

2. CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town’s least liquid investments, since they must be held to maturity.

Cash Deposits with Banks and Certificates of Deposit - California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town’s cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Town’s name and places the Town ahead of general creditors of the institution. The Town has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance.

The Carrying amount of the Town’s cash deposits was \$3,898,486 as of June 30, 2005. The bank balance was \$3,850,348 as of June 30, 2005 of which \$100,000 was covered by Federal Depository Insurance and \$3,750,348 was collateralized as discussed above. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

The Town voluntarily participates in LAIF, regulated under Section 16429 of the State Government Code. LAIF allows local agencies such as the Town to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The fair value of the Town's position in the pool is the same as the value of its pool shares. The total amount invested by all public agencies in LAIF, as of June 30, 2005, was approximately \$60.5 billion. Of that amount, 91% is invested in non-derivative financial products and 9% in structured notes and asset-backed securities. The average maturity for the investment in LAIF is 165 days.

Concentration of Credit Risk and Interest Rate Risk Policies - The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2005. The following table summarizes the Town's policy related to maturities and concentration of investments:

Investment Type	Maximum Maturity	Maximum Portfolio Percentage
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	15%
Commercial Paper	180 days	15%
Medium Term Notes	3/5 years	15%
Collateralized CD's	5 years	15%
CA LAIF	NA	65%
Money Market Funds	NA	15%

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2005.

Investment Type/Cash Deposit	Available for			Investment	Concentration	Time to	Weighted
	Operations	Restricted	Total	Rating	of Credit Risk	Mature (Years)	Average Maturity
U.S. Government Agency securities:							
SEI Investments	\$ 17,643,783	\$ -	\$ 17,643,783	1	31%	1.79	0.62
Union Bank	16,425,209	-	16,425,209	1	29%	2.24	0.77
U.S. Treasury Securities	-	658,658	658,658	NA	1%	2.04	0.70
Government Securities Money Market Mutual Funds	4,611,140	507,206	5,118,346	NA	9%	NA	NA
Local Agency Investment Fund	14,297,922	2,268,752	16,566,674	NA	29%	0.45	0.15
Total Investments	52,978,054	3,434,616	56,412,670		100%		2.24
Cash Deposits with Banks	3,198,914	699,572	3,898,486	NA	NA	NA	NA
Certificates of Deposit	-	239,803	239,803	NA	NA	NA	NA
Cash on hand at Town	2,750	-	2,750	NA	NA	NA	NA
Total Cash and Investments	\$ 56,179,718	\$ 4,373,991	\$ 60,553,709		100%		2.24

1 Limited to US Agency Obligations with liquid markets and readily determinable fair market values, including FHLB, FNMA, Freddie Mac, FFCB the Federal Land Bank and the TVA.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	Total City	Fiduciary Funds	Totals
Cash and investments available for operation	\$ 55,802,151	\$ 377,567	\$ 56,179,718
Restricted cash and investments	4,134,188	239,803	4,373,991
Total cash and investments	<u>\$ 59,936,339</u>	<u>\$ 617,370</u>	<u>\$ 60,553,709</u>

Marking Investments to Fair Value - The Town adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the Town's investments be carried at fair value instead of cost. Under GASB 31, the Town must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

3. LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2005:

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 447,545
Community Development Block Grant Fund(CDBG):			
Housing Conservation Loans	0-5%	Various	532,873
Open Doors Associates, Ltd.	7%	2024	58,987
Total CDBG			<u>591,860</u>
Total Long-Term Notes Receivable			<u>\$ 1,039,405</u>

Open Doors Associates Ltd. And Mid-Penninsula Housing Coalition - The Town has cooperation agreements with these two developers and several other governmental agencies (the "Developers"). Under these agreements, the Developers constructed a 64-unit low and moderate-income housing project. To assist in financing this project, the Town advanced funds to these developers under notes, which are secured by deeds of trust subordinated by construction loans, permanent financing and othe loans on the project up to a maximum of \$6.5 million.

Under a note dated April 21, 1992, the Town agreed to loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planing fees and building permit taxes. As of June 30, 2005, \$447,545 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Housing Conservation Loans - The Town administers a housing conservation and rehabilitation loan program using Housing and Community Development Act funds (funded through federal grants). Under this program, individuals with income below certain levels are eligible to receive low interest loans, secured by deeds of trust, for construction work on their homes. Upon approval of loans, the Town disburses cash and arranges for and collects repayments. As of June 30, 2005, restricted cash and investments included a balance of \$650,611 available for this program and recorded in the CDBG fund.

4. INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances due to or due from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

As of June 30, 2005, inter-fund receivables and payables consisted of the following:

Fund	Due From Other Funds	Due to Other Funds
General Fund	\$ 16,900	\$ -
Sewer Maintenance Fund	-	16,900
	<u>16,900</u>	<u>16,900</u>
Total	<u>\$ 16,900</u>	<u>\$ 16,900</u>

Fund	Advances From Other Funds	Advances to Other Funds
General Fund	\$ -	\$ 1,650,000
Certificates of Participation	1,500,000	-
Nonmajor Governmental Funds	150,000	-
	<u>1,650,000</u>	<u>1,650,000</u>
Total	<u>\$ 1,650,000</u>	<u>\$ 1,650,000</u>

The General Fund has an advance of 1,500,000 to the Certificates of Participation Debt Service Fund to finance Agency operations. The advance bears interest at 10% per year and is payable on demand. For the fiscal year ended June 30, 2005, the Certificates of Participation Fund paid \$137,500 in interest to the General Fund.

The General Fund has \$150,000 non-interest bearing advance to the Non-Point Source Maintenance Special Revenue Fund. Expenditures are paid and subsequently reimbursed in this fund and the advance was used to cover cash shortfalls until reimbursements are received. The advance is due when the program is eliminated and is repayable from Non-Point Source Maintenance revenues.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Transfers – With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects.

Transfers between funds during the fiscal year ended June 30, 2005 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>	
General Fund	Solid Waste Management	\$ 23,651	A
	Non-Point Source Maintenance	25,730	A
	Sewer Maintenance	85,010	A
	Land & Lighting	6,418	A
	Appropriated Reserves	65,572	A
	Gas Tax	106,000	B
Community Development Block Grant	General Fund	1,092	C
Housing Set-Aside	Certificates of Participation	1,163,323	F
Appropriated Reserves	General Fund	75,000	D
	Community Development Block Grant	62,769	E
RDA Capital Projects Fund	Certificates of Participation	515,750	D
		<u>\$ 2,130,315</u>	

The reasons for these transfers are set forth below:

- A** To reimburse fund administrative expenditures.
- B** Recurring transfers.
- C** To subsidize various programs run by CDBG
- D** To allocate balance of advance to fund capital projects.
- E** To fund capital project expenditures using grant funds.
- F** State-required set-aside of Low/Moderate Income Housing portion of property tax increment.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

5. CAPITAL ASSETS

Changes in capital assets during the fiscal year consist of:

Governmental activities

	Balance July 1, 2003	Additions	Adjustments & Retirements	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 14,165,194	\$ -	\$ -	\$ 14,165,194
Construction in Progress	373,978	7,980	-	381,958
Total capital assets not being depreciated	14,539,172	7,980	-	14,547,152
Capital assets being depreciated:				
Buildings and Improvements	9,055,089	19,820	-	9,074,909
Equipment & Vehicle	6,061,960	421,996	(214,150)	6,269,806
Infrastructure - All Other	2,846,835	849,760	-	3,696,595
Infrastructure - Streets	37,462,272	212,614	-	37,674,886
Total capital assets being depreciated	55,426,156	1,504,190	(214,150)	56,716,196
Less accumulated depreciation for:				
Buildings and Improvements	3,823,660	160,425	-	3,984,085
Equipment & Vehicle	3,786,906	614,211	(207,772)	4,193,345
Infrastructure - All Other	54,333	93,996	-	148,329
Infrastructure - Streets	11,753,218	1,205,140	-	12,958,358
Total accumulated depreciation	19,418,117	2,073,772	(207,772)	21,284,117
Net capital assets being depreciated	36,008,039	(569,582)	(6,378)	35,432,079
Governmental activity capital assets, net	\$ 50,547,211	\$ (561,602)	\$ (6,378)	\$ 49,979,231

Depreciation Allocation - Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<i>Governmental Activities</i>	Depreciation Expense
General government	\$ 76,892
Public safety	282,890
Parks and public works	1,504,872
Community development	31,684
Community services	9,195
Library	59,399
Sanitation	7,147
Redevelopment	101,693
Total Governmental Activities	\$ 2,073,772

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

6. LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town's bonded debt issues and transactions are summarized below in the schedule of changes in long-term debt and discussed in detail thereafter.

	Original Issue Amount	Balance June, 30 2004	Additions	Retirements	Balance June, 30 2005	Due Within One Year
1992 Certificates of Participation, 5-9%, due 8/1/2012	\$ 2,960,000	\$ 1,615,000	\$ -	\$ 170,000	\$ 1,445,000	\$ 175,000
2002 Certificates of Participation, Series A, 2.5-5%, due 8/1/2031	10,725,000	10,515,000	-	215,000	10,300,000	225,000
Total Long-Term Debt	\$ 13,685,000	\$ 12,130,000	\$ -	\$ 385,000	\$ 11,745,000	\$ 400,000

1992 Certificates of Participation (COPs) - The Town issued Certificates of Participation in the original principal amount of \$2,960,000 dated August 1, 1992 to finance certain construction costs of the Town's Parking Lot 4 Project, which was constructed on land located in the Los Gatos Central Redevelopment Project Area. The COPs are similar to bond debt as they allow investors to participate in a share of guaranteed payments. Because they are similar to debt, the present value of the total of the payments to be made is recorded as long-term debt. Principal payments are due annually on August 1st, which interest payments payable semi-annually on February 1st and August 1st. The Town has pledged motor vehicle license fee revenues as collateral for the repayment of the Certificates.

To assist the Town in paying the cost of acquisition and construction of the Parking Lot 4 Project, the Town and its Redevelopment Agency entered into a Reimbursement Agreement. Under this agreement, the Agency will use available net tax increment revenues resulting from the Project's effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreement for the Project. Net tax increment revenues are all taxes allocated to and paid into the Redevelopment Agency Capital Projects Fund for the Project Area. Reimbursements under this agreement commenced in fiscal 1995-1996.

For the fiscal year ended June 30, 2005, lease income and reimbursements in the amount of \$930,710 (offsetting) was recorded as other financing sources and uses in the Certificates of Participation Fund. These transactions are eliminated from the Government-Wide Statement of Activities.

2002 Certificates of Participation (COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 Certificates of Participation, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town has pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Future debt service requirements as of June 30, 2005, were as follows:

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 400,000	\$ 526,758
2007	415,000	511,458
2008	430,000	495,910
2009	445,000	479,137
2010	465,000	460,975
2011-2015	1,845,000	2,040,304
2016-2020	1,680,000	1,699,837
2021-2025	2,110,000	1,257,883
2026-2030	2,685,000	666,375
2031-2032	1,270,000	64,250
Total Debt Service	<u>\$ 11,745,000</u>	<u>\$ 8,202,887</u>

The Agency must maintain required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Town fails to meet its obligations under the COPs issue and totaled \$973,953 at June 30, 2005.

The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

7. SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$925,000 as of June 30, 2005 and was excluded from the Town's financial statements.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

8. NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets - Net Assets is the excess of all the Town's assets over all its liabilities, regardless of each fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Town's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter. These principally include debt service requirements and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

Reservations of Fund Balances - Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance or retained earnings that has been appropriated for expenditure or is legally segregated for a specific future use. As of June 30, 2005, portions of fund balance had been reserved because of the following:

Encumbrances are reserved to encumber fund balance for purchase order commitments made before fiscal year end.

Capital Outlay reserves are funded from storm drain fees, construction taxes and debt proceeds that are legally restricted for major capital projects.

Debt Service reserves reflect the cash balances in the debt service funds that are restricted for debt service payments.

Advances are reserved to reflect long-term loans to other funds that are not available for expenditure.

Repairs and Maintenance reserves reflect legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

Long-Term Notes Receivable reserves reflect the balance of long-term loans not offset by deferred revenue and that are not available for expenditure.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Housing reserves reflect the amounts to be expended for low and moderate-income housing or rental rehabilitation.

Library Trust reserves will be used for library operations accounted for in the Library Expendable Trust Fund.

Designations of Fund Balances - A portion of unreserved fund balance may be designated to indicate plans for financial resource usage in a future period, such as for general contingencies or capital projects. As of June 30, 2005, portions of unreserved fund balance had been designated for the following purposes and the remaining balance is unreserved.

Civic Center Improvements designations will be used for general improvements to the Civic Center including major upgrades to the electrical system.

Solid Waste Management designations will be used to implement a yard waste collection program.

Open Space designations will be used to make selective open space acquisitions.

Parking designations will be used to mitigate parking issues within the Town.

Manager's Contingency designations will be used at the discretion of the Town Manager to provide budgets for unforeseen situations that may arise during the fiscal year.

Productivity Enhancement designations will be used to fund requests that result in streamlining or improving existing service levels.

Economic Uncertainty designations will be used to fund future fluctuations in the economy that are not currently foreseen. This designation is calculated at 25% of the 2003-04 operating budget.

Capital Projects designations will be used for the acquisition and construction of capital facilities.

Carryover designations will be used for the re-appropriation, in the following fiscal year, of approved open purchase orders that are encumbered but unfilled at year-end

State Budget Agreement designations are set aside by Town Council to provide funding resource to be available to replace property tax lost to State on a "one-time" basis according to the 2006 budget agreement between the State of California and local governments.

Revenue Stabilization designations will be used to mitigate the cyclical changes in locally generated revenues from temporary downturns in the local economy, or "one-time" revenue losses where recovery of the revenue base is deemed likely in the near future.

Debt Service designations will be used to fund the future payments of principal and interest on long-term debt.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Excess of Expenditures over Appropriations - There were no funds with expenditures in excess of budget for the year ended June 30, 2005.

9. EMPLOYEES' RETIREMENT PLAN

Plan Description - The Town of Los Gatos contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2005 was 8.005% of annual covered payroll for non-safety (miscellaneous) and 28.323% for safety employees. The contribution requirements of plan members and the Town are established and may be amended by PERS.

Annual Pension Cost - For fiscal year ended June 30, 2005, the Town's \$1,856,695 annual pension cost for PERS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8.25% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.5% inflation; (d) 3.75% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.50% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three Year Trend Information PERS

In recent years the Town has experienced actuarial "surplus" excesses in the both the safety and miscellaneous retirement plans. As a result, the required employer contributions were reduced each year for both plans at differing amounts. Town management believed the spike in market valuations of actuarial assets was only temporary and decided to accrue expenses for those years in order to match expenditures more appropriately over time. The Town accrued at a historical

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

“normal” employer contribution rate of 7.0 and 11.0 percent of covered payroll for the miscellaneous and safety plans, respectively.

Safety Plan

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 1,024,649	100	0
6/30/04	626,290	100	0
6/30/05	1,168,631	100	0

Miscellaneous Plan

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 611,989	100	0
6/30/04	661,735	100	0
6/30/05	688,064	100	0

Plan Actuarial Value and Funding Progress

Safety Plan

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	\$ 26,845,081	\$ 27,471,189	\$ (626,108)	102.3%	\$ 3,339,766	-18.7%
2002	29,477,337	25,858,988	3,618,349	87.7%	3,631,141	99.6%
2003	32,651,102	26,834,605	5,816,497	82.2%	4,090,829	142.2%

Miscellaneous Plan

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	\$ 30,841,467	\$ 38,562,466	\$ (7,720,999)	125.0%	\$ 6,601,729	-117.0%
2002	34,162,824	36,683,535	(2,520,711)	107.4%	8,314,689	-30.3%
2003	40,384,163	37,408,898	2,975,265	92.6%	9,049,142	32.9%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

10. JOINT POWERS AUTHORITY

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Association of Bay Area Governments PLAN Corporation (ABAG) is a public entity risk pool that is a not-for-profit organization established in 1986 to provide certain levels of liability insurance coverage, claims and risk management services, and legal defense to San Francisco Bay Area cities (currently 29 participants). ABAG is governed by a Board of Directors comprised of officials appointed by each participating member and is administered by ABAG. The Town paid premiums of \$310,789 to ABAG during 2004-05. Members may receive rebates when declared by ABAG or, in the event excess liability claims against ABAG exceed available resources, may be required to make additional contributions. ABAG is considered a risk-sharing pool whereby all its members share in the cost of losses for other members.

Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2004, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$ 43,172,685
Total Liabilities	14,147,158
Net Assets	<u>29,025,527</u>
Total Operating Revenue	\$ 7,122,682
Total Operating Expense	8,500,073
Net Operating Income	<u>(1,377,391)</u>
General Revenue	<u>378,805</u>
Change in Net Assets	(998,586)
Beginning Net Assets	30,024,113
Ending Net Assets	<u>\$ 29,025,527</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

11. RISK MANAGEMENT

ABAG PLAN Corporation (ABAG) covers general liability claims in the amount up to \$5,000,000. The Town has a deductible or uninsured liability of up to \$50,000 per claim. ABAG also provides all risk property coverage of \$100,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property damage and a \$10,000 deductible for vehicle damage. Once the Town's deductible is met, ABAG becomes responsible for payment of all claims up to the limit.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$1,000,000. For claims greater than \$1,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 6371 Auburn Blvd., Suite B, Citrus Heights, California, 94604-2050. Condensed full accrual basis audited financial information of LAWCX as of and for the year ended June 30, 2004, is as follows:

Total Assets	\$ 18,717,317
Total Liabilities	16,694,773
Net Assets	<u>\$ 2,022,544</u>
Total Operating Revenue	\$ 10,225,057
Total Operating Expense	8,169,076
Net Operating Income	<u>2,055,981</u>
General Revenue	<u>327,519</u>
Change in Net Assets	2,383,500
Beginning Net Assets	(360,956)
Ending Net Assets	<u>\$ 2,022,544</u>

The Town has not significantly reduces its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but is has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

The change in Workers' Compensation and Self Insurance Service Funds' claims liabilities, including claims incurred but not reported as estimated by the Town, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2005:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - July 1, 2003	\$ 500,862	\$ 112,252	\$ 613,114
Claims incurred	136,505	249,938	386,443
Inc./(Dec.) in estimated liability for prior claims	326,043	42,735	368,778
Claims paid	(348,895)	(69,331)	(418,226)
Claims payable balance - July 1, 2004	<u>\$ 614,515</u>	<u>\$ 335,594</u>	<u>\$ 950,109</u>
Claims payable balance - July 1, 2004	\$ 614,515	\$ 335,594	\$ 950,109
Claims incurred	154,534	148,417	302,951
Inc./(Dec.) in estimated liability for prior claims	101,460	(27,729)	73,731
Claims paid	(279,049)	(216,441)	(495,490)
Claims payable balance - June 30, 2005	<u>\$ 591,460</u>	<u>\$ 239,841</u>	<u>\$ 831,301</u>

12. COMMITMENTS AND CONTINGENCIES

The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Town.

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Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND)

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

**TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Other taxes	\$ 80,000	\$ 161,653	\$ 81,653
Intergovernmental	460,000	349,368	(110,632)
Charges for services	1,500	1,650	150
Other	70,000	-	(70,000)
Total Revenues	611,500	512,671	(98,829)
EXPENDITURES			
Capital Outlay	1,129,114	809,830	319,284
Total Expenditures	1,129,114	809,830	319,284
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(517,614)	(297,159)	220,455
OTHER FINANCING SOURCES (USES)			
Operating transfers in	75,413	137,769	62,356
Operating transfers (out)	-	(65,572)	(65,572)
Total Other Financing Sources (Uses)	75,413	72,197	(3,216)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (442,201)</u>	(224,962)	<u>\$ 217,239</u>
BEGINNING FUND BALANCE		<u>4,078,709</u>	
ENDING FUND BALANCE		<u>\$ 3,853,747</u>	

**TOWN OF LOS GATOS
CERTIFICATES OF PARTICIPATION FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 3,987,470	\$ 5,316,509	\$ 1,329,039
Less: Educational Revenue Augmentation Fund	(303,000)	(303,158)	(158)
Interest	153,812	157,902	4,090
Total Revenues	3,838,282	5,171,253	1,332,971
EXPENDITURES			
Redevelopment	1,517,154	2,084,767	(567,613)
Debt Service:			
Principal	385,000	385,000	-
Interest and fees	684,265	684,998	(733)
Total Expenditures	2,586,419	3,154,765	(568,346)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,251,863	2,016,488	764,625
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers (out)	(1,409,077)	(1,679,073)	(269,996)
Total Other Financing Sources (Uses)	(1,409,077)	(1,679,073)	(269,996)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ (157,214)	337,415	\$ 494,629
BEGINNING FUND BALANCE		4,144,430	
ENDING FUND BALANCE		\$ 4,481,845	

TOWN OF LOS GATOS
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for Services	\$ -	\$ 3,000	\$ 3,000
Interest	75,000	69,111	(5,889)
Other	-	1,597	1,597
Total Revenues	75,000	73,708	(1,292)
EXPENDITURES			
Capital outlay	885,709	769,571	116,138
Total Expenditures	885,709	769,571	116,138
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(810,709)	(695,863)	114,846
OTHER FINANCING SOURCES (USES)			
Operating transfers in	515,750	515,750	-
Operating transfers (out)	-	-	-
Total Other Financing Sources (Uses)	515,750	515,750	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (294,959)</u>	<u>(180,113)</u>	<u>\$ 114,846</u>
BEGINNING FUND BALANCE		<u>3,500,386</u>	
ENDING FUND BALANCE		<u>\$ 3,320,273</u>	

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Solid Waste Management Fund was established to account for the Town's solid waste program activities.

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Sewer Maintenance Fund was established to account for the collection and disbursement of sanitary sewer fees.

Land and Lighting Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

Capital Projects Funds:

Housing Set-Aside Fund was established to account for the mandatory 20% property tax allocation for low-income housing and related capital projects.

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5. The revenues must be used for the maintenance and construction of streets.

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

	SPECIAL REVENUE FUNDS				
	Solid Waste Fund	Community Development Fund	Non-Point Source Maintenance	Sewer Maintenance	Lighting and Landscaping
ASSETS					
Cash & Investments	\$ 230,037	\$ -	\$ 306,148	\$ 48	\$ 78,136
Restricted cash & investments	-	650,611	-	-	-
Receivables:					
Accounts	17,881	1,452	666	32,830	-
Intergovernmental Receivable	10,253	122,578	-	-	29,185
Long Term Notes Receivable	-	591,860	-	-	-
Total Assets	\$ 258,171	\$ 1,366,501	\$ 306,814	\$ 32,878	\$ 107,321
LIABILITIES					
Accounts Payable	\$ 3,929	\$ 11,614	\$ 250	\$ 779	\$ 655
Accrued payroll and benefits	4,206	596	2,438	15,199	-
Deferred revenue	-	204,561	-	-	-
Advance from Other Funds	-	-	150,000	16,900	-
Total Liabilities	8,135	216,771	152,688	32,878	655
FUND BALANCES					
Reserved for:					
Low & Moderate Housing	-	-	-	-	-
Repair and Maintenance	-	-	-	-	106,666
Long Term Notes Receivable	-	591,860	-	-	-
Capital Projects	-	-	-	-	-
Unreserved, designated for:					
Solid waste management	250,036	-	-	-	-
Unreserved, Undesignated	-	557,870	154,126	-	-
Total Fund Balances	250,036	1,149,730	154,126	-	106,666
Total Liabilities and Fund Balances	\$ 258,171	\$ 1,366,501	\$ 306,814	\$ 32,878	\$ 107,321

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

	CAPITAL PROJECTS FUNDS						
	Housing Set-Aside	Storm Drains Basin 1	Storm Drains Basin 2	Storm Drains Basin 3	Construction Tax	Gas Tax	Total
ASSETS							
Cash & Investments	\$ 4,075,395	\$ 440,188	\$ 498,008	\$ 200,675	\$ 1,973,183	\$ 933,588	\$ 8,735,406
Restricted cash & investments	-	-	-	-	-	-	650,611
Receivables:							
Accounts	388,801	-	-	-	-	-	441,630
Intergovernmental Receivable	-	-	-	-	-	-	162,016
Long Term Notes Receivable	-	-	-	-	-	-	591,860
Total Assets	\$ 4,464,196	\$ 440,188	\$ 498,008	\$ 200,675	\$ 1,973,183	\$ 933,588	\$ 10,581,523
LIABILITIES							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,042	\$ 21,269
Accrued payroll and benefits	2,202	-	-	-	-	-	24,641
Deferred revenue	126,801	-	-	-	-	-	331,362
Advance from Other Funds	-	-	-	-	-	-	166,900
Total Liabilities	129,003			-	-	4,042	544,172
FUND BALANCES							
Reserved for:							
Low & Moderate Housing	4,335,193	-	-	-	-	-	4,335,193
Repair and Maintenance	-	-	-	-	-	-	106,666
Long Term Notes Receivable	-	-	-	-	-	-	591,860
Capital Projects	-	440,188	498,008	200,675	1,973,183	929,546	4,041,600
Unreserved, designated for:							
Solid waste management	-	-	-	-	-	-	250,036
Unreserved, Undesignated	-	-	-	-	-	-	711,996
Total Fund Balances	4,335,193	440,188	498,008	200,675	1,973,183	929,546	10,037,351
Total Liabilities and Fund Balances	\$ 4,464,196	\$ 440,188	\$ 498,008	\$ 200,675	\$ 1,973,183	\$ 933,588	\$ 10,581,523

(Concluded)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

SPECIAL REVENUE FUNDS					
	Solid Waste Fund	Community Development Fund	Non-Point Source Maintenance	Sewer Maintenance	Lighting and Landscaping
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ 37,398
Other Taxes	-	-	-	-	-
Intergovernmental	57,808	259,228	158,570	576,420	-
Charges for Services	105,173	-	-	-	38,481
Interest	-	40,729	-	-	2,320
Total Revenues	162,981	299,957	158,570	576,420	78,199
EXPENDITURES					
Current:					
Parks and Public Works	-	-	-	-	46,842
Community Services	-	89,639	-	-	-
Sanitation and Other	208,403	-	148,734	491,410	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Interest & Fees	-	13,908	-	-	-
Total Expenditures	208,403	103,547	148,734	491,410	46,842
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(45,422)	196,410	9,836	85,010	31,357
OTHER FINANCING SOURCES (USES)					
Transfers in	-	1,092	-	-	-
Transfers (out)	(23,651)	(62,769)	(25,730)	(85,010)	(6,418)
Total Other Financing Sources (Uses)	(23,651)	(61,677)	(25,730)	(85,010)	(6,418)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(69,073)	134,733	(15,894)	-	24,939
Fund Balances at beginning of year	319,109	1,014,997	170,020	-	81,727
Fund Balances at end of year	\$ 250,036	\$ 1,149,730	\$ 154,126	\$ -	\$ 106,666

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	CAPITAL PROJECTS FUNDS						
	Housing Set-Aside	Storm Drains Basin 1	Storm Drains Basin 2	Storm Drains Basin 3	Construction Tax	Gas Tax	Total
REVENUES							
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,398
Other Taxes	-	127,357	200,107	29,466	53,443	-	410,373
Intergovernmental	-	-	-	-	-	553,021	1,605,047
Charges for Services	-	-	-	-	-	-	143,654
Interest	24,138	8,790	8,590	4,450	46,170	18,530	153,717
Total Revenues	24,138	136,147	208,697	33,916	99,613	571,551	2,350,189
EXPENDITURES							
Current:							
Parks and Public Works	-	-	-	-	-	-	46,842
Community Services	-	-	-	-	-	-	89,639
Sanitation and Other	-	-	-	-	-	-	848,547
Capital Outlay	208,367	20,200	-	-	-	34,244	262,811
Debt Service:							
Interest & Fees	-	-	-	-	-	-	13,908
Total Expenditures	208,367	20,200	-	-	-	34,244	1,261,747
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(184,229)	115,947	208,697	33,916	99,613	537,307	1,088,442
OTHER FINANCING SOURCES (USES)							
Transfers in	1,163,323	-	-	-	-	-	1,164,415
Transfers (out)	-	-	-	-	-	(106,000)	(309,578)
Total Other Financing Sources (Uses)	1,163,323	-	-	-	-	(106,000)	854,837
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	979,094	115,947	208,697	33,916	99,613	431,307	1,943,279
Fund Balances at beginning of year	3,356,099	324,241	289,311	166,759	1,873,570	498,239	8,094,072
Fund Balances at end of year	\$ 4,335,193	\$ 440,188	\$ 498,008	\$ 200,675	\$ 1,973,183	\$ 929,546	\$ 10,037,351

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	SOLID WASTE MANAGEMENT			COMMUNITY DEVELOPMENT BLOCK GRANT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	49,585	57,808	8,223	104,066	259,228	155,162
Charges for services	100,000	105,173	5,173	10,000	-	(10,000)
Interest	-	-	-	-	40,729	-
Other	-	-	-	-	-	-
Total Revenues	149,585	162,981	13,396	114,066	299,957	145,162
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	306,716	89,639	217,077
Sanitation and other	303,288	208,403	94,885	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	10,000	13,908	(3,908)
Total Expenditures	303,288	208,403	94,885	316,716	103,547	213,169
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(153,703)	(45,422)	108,281	(202,650)	196,410	399,060
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	21,050	1,092	(19,958)
Transfers (out)	(23,900)	(23,651)	249	(20,000)	(62,769)	(42,769)
Total Other Financing Sources (Uses)	(23,900)	(23,651)	249	1,050	(61,677)	(62,727)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (177,603)</u>	<u>(69,073)</u>	<u>\$ 108,530</u>	<u>\$ (201,600)</u>	<u>134,733</u>	<u>\$ 336,333</u>
BEGINNING FUND BALANCES		319,109			1,014,997	
ENDING FUND BALANCES		<u>\$ 250,036</u>			<u>\$ 1,149,730</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	NON-POINT SOURCE MAINTENANCE			SEWER MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	158,570	158,570	-	-	-	-
Charges for services	-	-	-	543,590	576,420	32,830
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	158,570	158,570	-	543,590	576,420	32,830
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	135,170	148,734	(13,564)	463,390	491,410	(28,020)
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	135,170	148,734	(13,564)	463,390	491,410	(28,020)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	23,400	9,836	(13,564)	80,200	85,010	4,810
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	(23,400)	(25,730)	(2,330)	(80,200)	(85,010)	(4,810)
Total Other Financing Sources (Uses)	(23,400)	(25,730)	(2,330)	(80,200)	(85,010)	(4,810)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ -	(15,894)	\$ (15,894)	\$ -	-	\$ -
BEGINNING FUND BALANCES		170,020			-	
ENDING FUND BALANCES		\$ 154,126			\$ -	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	LIGHTING AND LANDSCAPING			HOUSING SET-ASIDE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 37,110	\$ 37,398	\$ 288	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	4,600	38,481	-	-	-	-
Interest	2,340	2,320	(20)	78,838	24,138	(54,700)
Other	-	-	-	-	-	-
Total Revenues	44,050	78,199	268	78,838	24,138	(54,700)
EXPENDITURES						
Parks and public works	47,443	46,842	601	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	-	-	-	261,650	208,367	53,283
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	47,443	46,842	601	261,650	208,367	53,283
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,393)	31,357	34,750	(182,812)	(184,229)	(1,417)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	893,327	1,163,323	269,996
Transfers (out)	(5,870)	(6,418)	(548)	-	-	-
Total Other Financing Sources (Uses)	(5,870)	(6,418)	(548)	893,327	1,163,323	269,996
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (9,263)	24,939	\$ 34,202	\$ 710,515	979,094	\$ 268,579
BEGINNING FUND BALANCES		81,727			3,356,099	
ENDING FUND BALANCES		\$ 106,666			\$ 4,335,193	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	STORM DRAINS BASIN 1			STORM DRAINS BASIN 2		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	50,000	127,357	77,357	50,000	200,107	150,107
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	11,000	8,790	(2,210)	7,200	8,590	1,390
Other	-	-	-	-	-	-
Total Revenues	61,000	136,147	75,147	57,200	208,697	151,497
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	27,574	20,200	7,374	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	27,574	20,200	7,374	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	33,426	115,947	82,521	57,200	208,697	151,497
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 33,426	115,947	\$ 82,521	\$ 57,200	208,697	\$ 151,497
BEGINNING FUND BALANCES		324,241			289,311	
ENDING FUND BALANCES		\$ 440,188			\$ 498,008	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005**

	STORM DRAINS BASIN 3			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	10,000	29,466	19,466	50,000	53,443	3,443
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	4,200	4,450	250	52,000	46,170	(5,830)
Other	-	-	-	-	-	-
Total Revenues	14,200	33,916	19,716	102,000	99,613	(2,387)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,200	33,916	19,716	102,000	99,613	(2,387)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 14,200</u>	<u>33,916</u>	<u>\$ 19,716</u>	<u>\$ 102,000</u>	<u>99,613</u>	<u>\$ (2,387)</u>
BEGINNING FUND BALANCES		<u>166,759</u>			<u>1,873,570</u>	
ENDING FUND BALANCES		<u>\$ 200,675</u>			<u>\$ 1,973,183</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2005

	GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 37,110	\$ 37,398	\$ 288
Other taxes	-	-	-	160,000	410,373	250,373
Intergovernmental	431,000	553,021	122,021	743,221	1,028,627	285,406
Charges for services	-	-	-	658,190	720,074	28,003
Interest	11,000	18,530	7,530	166,578	153,717	(53,590)
Other	-	-	-	-	-	-
Total Revenues	442,000	571,551	129,551	1,765,099	2,350,189	510,480
EXPENDITURES						
Parks and public works	-	-	-	47,443	46,842	601
Community services	-	-	-	306,716	89,639	217,077
Sanitation and other	-	-	-	901,848	848,547	53,301
Capital Outlay	34,244	34,244	-	323,468	262,811	60,657
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	10,000	13,908	(3,908)
Total Expenditures	34,244	34,244	-	1,589,475	1,261,747	327,728
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	407,756	537,307	129,551	175,624	1,088,442	912,818
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	914,377	1,164,415	250,038
Transfers (out)	(106,000)	(106,000)	-	(259,370)	(309,578)	(50,208)
Total Other Financing Sources (Uses)	(106,000)	(106,000)	-	655,007	854,837	199,830
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 301,756</u>	431,307	<u>\$ 129,551</u>	<u>\$ 830,631</u>	1,943,279	<u>\$ 1,112,648</u>
BEGINNING FUND BALANCES		<u>498,239</u>			<u>8,094,072</u>	
ENDING FUND BALANCES		<u>\$ 929,546</u>			<u>\$ 10,037,351</u>	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self Insurance Fund was established to account for future general liability claims against the Town.

Stores Fund was established to account for the purchase of photocopy equipment, postage and bulk meter expenses.

Management Information Fund was established to account for the replacement of management information computer systems and components.

Vehicle Maintenance Fund was established to account for preventative maintenance and repair provided for all Town vehicles and equipment.

Building Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
Cash & Investments	\$ 3,491,310	\$ 2,368,440	\$ 2,180,121	\$ 226,227	\$ 2,433,894	\$ 138,064	\$ 1,003,332	\$ 11,841,388
Restricted cash & investments	-	48,961	-	-	-	-	-	48,961
Receivables:								
Accounts	-	-	5,657	-	-	-	170	5,827
Interest	-	-	-	-	-	-	-	-
Intergovernmental Receivable	-	-	-	-	-	-	-	-
Interfund Receivable	-	-	-	-	-	-	-	-
Supplies and Prepaids	-	-	-	7,661	-	10,706	-	18,367
Equipment (Net)	-	-	-	-	-	35,811	46,699	82,510
Total Assets	\$ 3,491,310	\$ 2,417,401	\$ 2,185,778	\$ 233,888	\$ 2,433,894	\$ 184,581	\$ 1,050,201	\$ 11,997,053
LIABILITIES								
Accounts Payable	\$ -	\$ 7,441	\$ 3,244	\$ 3,669	\$ 22,373	\$ 25,223	\$ 41,123	\$ 103,073
Accrued payroll and benefits	-	1,445	2,736	-	9,789	7,085	2,841	23,896
Claims Payable	-	591,460	239,841	-	-	-	-	831,301
Deferred revenue	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	5,241	5,241
Advance from Other Funds	-	-	-	-	-	-	-	-
Total Liabilities	\$ -	\$ 600,346	\$ 245,821	\$ 3,669	\$ 32,162	\$ 32,308	\$ 49,205	\$ 963,511
NET ASSETS								
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,811	\$ 46,699	\$ 82,510
Unrestricted	3,491,310	1,817,055	1,939,957	230,219	2,401,732	116,462	954,297	10,951,032
Total Net Assets	\$ 3,491,310	\$ 1,817,055	\$ 1,939,957	\$ 230,219	\$ 2,401,732	\$ 152,273	\$ 1,000,996	\$ 11,033,542

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 441,015	\$ 582,124	\$ 488,726	\$ 89,551	\$ 711,434	\$ 459,100	\$ 999,194	\$ 3,771,144
Refunds	-	-	22,122	-	-	-	-	22,122
Interest	-	24	-	-	-	-	-	24
Other	11,900	5,133	-	-	120,379	7,266	2,030	146,708
Total Operating Revenues	452,915	587,281	510,848	89,551	831,813	466,366	1,001,224	3,939,998
OPERATING EXPENSES								
Salaries and benefits	-	41,804	74,678	-	333,951	225,533	93,541	769,507
Insurance expenses	-	443,434	247,293	-	-	-	-	690,727
Depreciation expenses	-	-	-	-	-	-	3,970	3,970
Services and supplies	230,333	4,078	70,953	77,586	321,712	254,372	653,528	1,612,562
Total Operating Expenses	230,333	489,316	392,924	77,586	655,663	479,905	751,039	3,076,766
Operating Income (loss)	222,582	97,965	117,924	11,965	176,150	(13,539)	250,185	863,232
Transfers (out)	-	-	-	-	-	-	-	-
Change in Net Assets	222,582	97,965	117,924	11,965	176,150	(13,539)	250,185	863,232
BEGINNING NET ASSETS	3,268,728	1,719,090	1,822,033	218,254	2,225,582	165,812	750,811	10,170,310
ENDING NET ASSETS	\$ 3,491,310	\$ 1,817,055	\$ 1,939,957	\$ 230,219	\$ 2,401,732	\$ 152,273	\$ 1,000,996	\$ 11,033,542

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from customers	\$ 452,915	\$ 587,281	\$ 517,684	\$ 118,677	\$ 831,813	\$ 466,366	\$ 1,006,772	\$ 3,981,508
Payments to suppliers	(230,332)	-	(91,471)	(79,357)	(306,893)	(234,072)	(699,671)	(1,641,796)
Payments to employees	-	(41,804)	(74,167)	-	(332,797)	(224,426)	(93,194)	(766,388)
Claims paid	-	(462,921)	(343,046)	-	-	-	-	(805,967)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	222,583	82,556	9,000	39,320	192,123	7,868	213,907	767,357
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Acquisition of capital assets	-	-	-	-	-	(35,811)	-	(35,811)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-	-	-	(35,811)	-	(35,811)
NET INCREASE IN CASH AND INVESTMENTS	222,583	82,556	9,000	39,320	192,123	(27,943)	213,907	731,546
CASH AND INVESTMENTS - BEGINNING	3,268,727	2,334,845	2,171,122	186,907	2,241,771	166,005	789,426	11,158,803
CASH AND INVESTMENTS - ENDING	\$ 3,491,310	\$ 2,417,401	\$ 2,180,122	\$ 226,227	\$ 2,433,894	\$ 138,062	\$ 1,003,333	\$ 11,890,349
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:								
Operating Income	222,582	97,965	117,924	11,965	176,150	(13,539)	250,185	863,232
Adjustments to reconcile operating income to cash flows provided by operating activities:								
Depreciation	-	-	-	-	-	-	3,970	3,970
Change in assets and liabilities:								
Receivables, net	-	-	6,836	29,126	-	6,033	5,548	47,543
Supplied and prepaids	-	-	-	(635)	-	-	-	(635)
Accounts payable and other accrued expenses	-	7,646	(20,008)	(1,136)	14,819	14,267	(43,766)	(28,178)
Other accrued expenses	-	(23,055)	(95,752)	-	1,154	1,107	(2,029)	(118,575)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 222,582	\$ 82,556	\$ 9,000	\$ 39,320	\$ 192,123	\$ 7,868	\$ 213,908	\$ 767,357

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

AGENCY FUND
PARKNG IMPROVEMENT DISTRICT #88

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF LOS GATOS
AGENCY FUND
PARKING IMPROVEMENT DISTRICT #88
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
ASSETS				
Cash and investments (Note 2)	\$ 72,781	\$ 159,080	\$ 149,438	\$ 82,423
Restricted cash and investments (Note 2)	228,521	11,282	-	239,803
Intergovernmental receivable	881,409	-	83,644	797,765
 Total Assets	 \$ 1,182,711	 \$ 170,362	 \$ 233,082	 \$ 1,119,991
LIABILITIES				
Due to other governments	\$ 1,182,711	\$ 170,362	\$ 233,082	\$ 1,119,991
 Total Liabilities	 \$ 1,182,711	 \$ 170,362	 \$ 233,082	 \$ 1,119,991

Statistical Section

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Other Independent Auditor's Reports

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the Town Council
Town of Los Gatos

We have audited the financial statements of Town of Los Gatos (the "Town") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

September 23, 2005
Redwood City, California